

ALPINE COUNTY ASSESSMENT PRACTICES SURVEY

MAY 2005

CALIFORNIA STATE BOARD OF EQUALIZATION

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May 31, 2005

TO COUNTY ASSESSORS:

ALPINE COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2005/033

A copy of the Alpine County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Dave Peets, Alpine County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Alpine County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County Property Tax Division from March through August 2004. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Peets and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that more than one-half of all property tax revenue is used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Alpine County Assessor's Office.

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Alpine County Grand Jury and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Dave Peets, Alpine County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, pursuant to Revenue and Taxation Code¹ section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the Alpine County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Alpine County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2003-04 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit—the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

¹ Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

In our August 2000 Alpine County Assessment Practices Survey report, we made 18 recommendations to address problems in the assessor's assessment policies and procedures. The assessor implemented eight of the recommended changes and did not implement the balance. We repeat all of these recommendations except those that are no longer appropriate because of changes in the law or in BOE guidance.

In the area of administration, the assessor, auditor and tax collector/recorder recently installed an integrated property tax assessment system, Crest Software. This system, in use by assessors in other counties, will allow for queries on a variety of property types and reappraisable events. Additionally, we noted that the appraisal staff are certified and the disaster relief assessment program exhibited no problems in limited activity over recent years.

Several administrative components of the assessor's programs need improvement:

- The assessor still fails to limit roll changes to those within the statute of limitations provided for in section 532, and fails to send a *Notice of Enrollment of Escape Assessment* as required by section 534.
- The assessor does not submit forms checklists to the BOE as required by rule 171.

In the area of real property assessment, the assessor has effective programs for the enrollment of changes in ownership, new construction, declines in value, supplemental assessments, leasehold improvements, and water company property. Currently, there are no properties under decline-in-value status. The assessor's California Land Conservation Act property program has not yet been fully activated. Other programs have areas where improvement is needed:

- The assessor fails to assess taxable government-owned property at the lowest of its current market value, factored base year value, or restricted value.
- The assessor fails to use the appropriate term of possession when valuing possessory interests with a contractual term of possession and does not reappraise all taxable possessory interests upon a change in ownership.
- The assessor does not assess the personal property in timeshare units used as rental property.

The assessor has effective programs for the processing of business property statements, the assessment of leased equipment, and the assessment of animals. Other programs needing improvement are:

- The assessor still fails to audit the books and records of professions, trades, or businesses pursuant to section 469 or obtain waivers of the statute of limitations when a mandatory audit will not be completed on time.

- The assessor uses unsupported minimum percent good factors.
- The assessor does not enroll manufactured homes on the secured roll, as required by section 5830 and in the manner prescribed in section 5801, and does not issue supplemental assessments for qualifying events involving manufactured homes.
- The assessor fails to add sales tax as a component when valuing vessels.

Despite the problems noted above, we found that most properties and property types are assessed correctly.

The BOE's sampling in conjunction with the current survey is mandated by Government Code section 15643(b). The Alpine County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2003-04 assessment roll indicated an average assessment ratio of 98.83 percent, and the sum of the absolute differences from the required assessment level was 3.57 percent. Accordingly, the BOE certifies that Alpine County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

Here is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

RECOMMENDATION 1:	Improve the assessment roll change program by (1) limiting roll changes to those roll years within the statute of limitations in section 532, and (2) sending a <i>Notice of Enrollment of Escape Assessment</i> as required by section 534.....	11
RECOMMENDATION 2:	Submit forms checklists to the BOE as required by rule 171.....	15
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RECOMMENDATION 7:	Use Assessors' Handbook Section 581, <i>Equipment Index and Percent Good Factors</i> , as intended.	32
RECOMMENDATION 8:	Improve the manufactured home assessment program by (1) enrolling manufactured homes on the secured roll, as required by section 5830, and in the manner prescribed in section 5801; and (2) issuing supplemental assessments upon a change in ownership of a manufactured home.....	34
RECOMMENDATION 9:	Include sales tax as a component of value when appraising vessels.	35

RESULTS OF 2000 SURVEY

Disaster Relief

We recommended the assessor request that the Board of Supervisors revise the disaster relief ordinance to conform to statute. While there have been no changes to the county's ordinances regarding disaster relief since October 18, 1988, we found that the ordinances (there are three active ordinances) do not conflict with each other or with section 170. Therefore, we will not repeat this recommendation.

Assessment Roll Changes

We recommended the assessor enter escape assessments and their required captions on the assessment roll, limit roll changes to those roll years within the statute of limitations, and include the proper heading on the notice of proposed escape assessment.

The first recommendation is no longer applicable because the requirement to enter escape assessments and their required captions on the assessment roll has been deleted by Stats. 2004, Ch. 1880, effective January 1, 2005. The second recommendation has not been implemented and is repeated. The assessor has implemented the last recommendation.

Change in Ownership

We recommended the assessor promptly enroll new base year values for properties that undergo a change in ownership. The assessor has implemented this recommendation.

New Construction

We recommended the assessor improve the discovery of new construction by obtaining copies of permits for septic systems and wells, conducting periodic field inspections, and enrolling the value of partially completed new construction on each lien date until completed and the new base year values following completed new construction. The assessor has implemented these recommendations.

Declines in Value

We recommended that the assessor annually reappraise properties with taxable values that are less than their factored base year values, as required by section 51(e). The assessor did not implement this recommendation. However, due to a trend of increasing market values in Alpine County since our prior survey, there were no properties in decline-in-value status on the 2003-04 assessment roll. With the decline-in-value program essentially inactive, we are not repeating this recommendation.

Supplemental Assessments

We recommended the assessor issue supplemental assessments on a timely and regular basis. The assessor has implemented this recommendation.

Taxable Possessory Interests

We recommended that the assessor comply with regulatory requirements by including the present worth of unpaid future rents in the value of appropriate possessory interests. Since the assessor has changed his policy, we are not repeating this recommendation.

We recommended the assessor include copies of leases and other pertinent information in all possessory interest files. The assessor has not implemented this recommendation. Since this is not a statutory requirement, we are not repeating this prior recommendation.

We recommended the assessor include termination and renewal dates of possessory interest contracts on the list of possessory interest assessments. The assessor is aware of these reappraisable events, but has elected not to reappraise them. Therefore, we are restating this recommendation, stressing reappraisal of possessory interests upon a change of ownership.

Taxable Government-Owned Property

We recommended that the assessor identify the specific government agencies controlling property in the county. Since we found no problems resulting from the assessor's method of identifying taxable government-owned property, we are not repeating this recommendation.

We recommended that the assessor annually review the assessments of taxable government-owned property and enroll the proper values. Although the assessor now does annually review these properties, he fails to consider factored base year value in his comparison and this issue is addressed in this report.

Audit Program

We recommended the assessor perform mandatory audits pursuant to section 469 and seek waivers of the statute of limitations when a mandatory audit will not be completed on time. Since the assessor did not implement these recommendations, we are repeating them.

OVERVIEW OF ALPINE COUNTY

Alpine County lies along the crest of the central Sierra, south of Lake Tahoe and north of Yosemite, bordering the state of Nevada. Alpine County is bordered by the counties of El Dorado to the north, Amador and Calaveras to the west, Tuolumne and Mono to the south, and the State of Nevada to the east. Alpine County encompasses about 727 square miles. This high alpine county was chartered in 1864. The highest point in the county is Sonora Peak at 11,459 feet and the lowest point is along the Nevada State border at 4,868 feet. Currently, Alpine County has a population of about 1,200, most of which is concentrated around a few mountain communities: Markleeville, Woodfords, Bear Valley, and Kirkwood Meadows. There are no incorporated cities and only about 5 percent of the land in the county is privately owned. The county is governed by a five-member board of supervisors.

The following table displays information pertinent to the 2003-04 assessment roll:

ASSESSMENT ROLL	NUMBER OF ASSESSMENTS	ENROLLED VALUE
Secured Roll	2,271	\$429,015,782
Unsecured Roll	228	\$25,531,545
Total	2,499	\$454,547,327

Alpine County is experiencing increased market activity and increasing property values. The percent increase in the total roll value from the 1999-00 roll to the 2003-04 roll is 84 percent. Additionally, the number of assessments increased 17.5 percent from 2,127 on the 1999-00 assessment roll to 2,499 on the 2003-04 assessment roll. These increases are primarily due to the assessor's efforts to reduce a backlog of assessments, to the improvement in the local real estate market, and to the development of vacant land in the Kirkwood Meadows area. The next table illustrates the growth in assessed values during the past five years.

ASSESSMENT ROLL	SECURED ROLL	UNSECURED ROLL	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE ²
2003-04	\$429,015,782	\$25,531,545	\$454,547,327	19.79%	7.33%
2002-03	\$354,899,852	\$24,563,367	\$379,463,219	21.49%	9.36%
2001-02	\$287,504,752	\$24,848,825	\$312,353,577	14.16%	8.33%
2000-01	\$250,027,349	\$23,591,397	\$273,618,746	10.97%	7.14%
1999-00	\$222,740,894	\$23,837,903	\$246,578,797		

² Board of Equalization Annual Report, Table 4.

ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, appraiser certification, disaster relief, assessment roll changes, exemptions, and assessment forms.

Budget and Staffing

As shown in the following table, the budget for the assessor has fluctuated over the last five years. The large increase from 1999-00 to 2000-01 was primarily due to the mid-year conversion of a part-time appraiser position to a full-time appraiser position, salary increases, the purchase of a computer printer, and legal fees for an appeal. A new part-time appraiser position, along with the new full-time position from the prior year, contributed to the budget increase for 2001-02. The decrease in the 2002-03 budget is primarily due to reduced health care costs. The 2003-04 budget increase is partially reflective of a salary increases for the assessor and his staff.

BUDGET YEAR	GROSS BUDGET	INCREASE	PERMANENT STAFF
2003-04	\$243,906	11.02%	3.46
2002-03	\$219,691	-4.43%	3.46
2001-02	\$229,866	16.56%	3.46
2000-01	\$197,209	28.95%	3.00
1999-00	\$152,931		2.50

Currently, in addition to the assessor, the permanent staff includes one full-time appraiser, one part-time appraiser, and one full-time assessment office specialist. As explained above, changes in the assessor's staff over the past five years have included conversion of a part-time appraiser position to full-time and the subsequent approval of a new part-time appraiser position.

On June 18, 2003, the assessor requested an extension of time to complete the 2003-04 assessment roll due to a backlog of work and the fact that the county was converting to the Crest Software for assessment and tax processing. An extension of time from July 1, 2003 to July 31, 2003, was granted by the BOE. The assessor subsequently delivered the unsecured roll to the county auditor on July 22, 2003, and the secured roll on July 28, 2003.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. There are a total of three certified appraisers on staff (including the assessor), of which two appraisers hold advanced certificates and one has a permanent certificate. The assessor has no outside appraisers under a consultant contract.

There is no auditor-appraiser on the Alpine County Assessor's staff. The only mandatory audit that has been completed on property in Alpine County involved a property that straddles the county's border with Amador County. That audit was completed by an auditor-appraiser from Amador County who meets the requirements referenced in section 670(d).

The assessor's assessment office specialist does not make valuation decisions and is not required to hold a certificate.

Disaster Relief

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property tax relief is available to the owner of any taxable property whose property suffers damage exceeding \$10,000 (without his or her fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

To obtain relief under an ordinance, assesseees must make a written application to the assessor requesting reassessment. However, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must either provide the last known assessee with an application for reassessment, or he or she may revalue the property on lien date.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by \$10,000 or more, the assessor shall then determine the percentage of value reductions and reduce the assessed values accordingly.

On October 18, 1988, the Alpine County Board of Supervisors adopted an ordinance that allows the assessor to grant tax relief for damage incurred under all of the circumstances allowed by section 170. This ordinance repealed Ordinance 347-75 and does not have a termination date.

No properties in Alpine County have suffered substantial damage as the result of flooding or other natural disasters in recent years. In addition, due to the public's awareness of the potential for forest fires in this mountainous county and their extreme diligence in preventing them, no properties have qualified for disaster relief due to fire damage in the last five years. As a result, there were no disaster relief applications to review.

However, we did find that the assessor's disaster relief application form is outdated and incomplete. The form contains obsolete filing deadlines, does not address the \$10,000 damage threshold, does not state that a claim may be made for damage to personal property, and does not include an area for computing the property values before and after the disaster or calamity. Revision of the assessor's disaster relief application form would be advantageous in the event a natural disaster does occur.

Assessment Roll Changes

The assessor must complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the assessment roll to the auditor, the roll may not be changed except as authorized by statute. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed, for any reason, on the original roll. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

In our 2000 survey report, we recommended that the assessor include the proper heading on the notice of proposed escape assessment. The assessor is now providing taxpayers with a *Notice of Proposed Escape Assessment* that fully complies with the requirements of section 531.8.

We reviewed all secured and unsecured roll corrections and escape assessments processed from September 2001 through October 2003, and found that most roll corrections were processed correctly. However, we found that the assessor had not implemented two recommendations from our 2000 report. The assessor still does limit roll changes to those roll years within the statute of limitation. The other recommendation that was not implemented is no longer applicable because the requirement to enter escape assessments and their required captions on the assessment roll has been deleted by Stats. 2004, Ch. 1880, effective January 1, 2005.

Additionally, we found that the assessor does not properly notify taxpayers of the enrollment of an escape assessment. We repeat the two prior recommendations and make a new recommendation concerning taxpayer notification requirements.

RECOMMENDATION 1: Improve the assessment roll change program by (1) limiting roll changes to those roll years within the statute of limitations in section 532, and (2) sending a *Notice of Enrollment of Escape Assessment* as required by section 534.

Limit roll changes to those roll years within the statute of limitations in section 532.

The assessor processed escape assessments for changes in ownership and completion of new construction beyond the statute of limitations. We found escaped assessments for the 1999-00 assessment roll that were delivered to the auditor in October 2003, beyond the statute of limitations for the assessments.

As provided by section 532, escape assessments must be made within four years after July 1 of the assessment year in which the property escaped assessment or was underassessed. The time period is extended to eight years for assessments where section 504 penalties apply. For unrecorded changes in ownership in which no *Change of Ownership Statement* (COS) or *Preliminary Change of Ownership Report* (PCOR) was timely filed, the assessment must be made within eight years after July 1 of the assessment year in which the property escaped

taxation or was underassessed. When property escapes taxation, in whole or in part, or has been underassessed following a change in ownership or change in control, and the penalty provided for in section 503 applies or a change in ownership statement, as required by section 480.1 or 480.2, was not filed with respect to the event giving rise to the escape assessment or underassessment, an escape assessment shall be made for each year in which the property escaped taxation or was underassessed.

Delays in processing escape assessments can adversely affect the security of taxes. Section 531.2(a) provides that an escape assessment shall not create or impose a lien on the property when the property has changed ownership or becomes subject to a lien after July 1 of the year of escape, but prior to the date of assessment and entry on the secured roll.

Entering escape assessments on the roll outside the statute of limitations also results in overassessments.

Send a Notice of Enrollment of Escape Assessment as required by section 534.

The assessor does not properly notify taxpayers that an escape assessment has been enrolled. The assessor sends only the *Notice of Proposed Escape Assessment*, prior to enrollment of the escape assessment. This notice does not satisfy the requirements of section 534.

Section 534 requires that the taxpayer be apprised of their rights to both an informal review of the assessment by the assessor and the right to file an appeal contesting the assessment. The assessor's notice does not provide this information to the taxpayer.

In Letter To Assessors 2003/066, dated November 4, 2003, the BOE notified assessors of statutory changes to section 534 (effective January 1, 2004) to make notification forms BOE-approved. The letter directs that the forms used by the assessor as a *Notice of Enrollment of Escape Assessment* must be submitted to the BOE for approval. Section 534 provides that specific items must be included in this notice.

The assessor's notice does not comply with section 534 and does not adequately inform taxpayers of their rights to both an informal review of the assessment and to file an appeal contesting the assessment.

Exemptions

In Alpine County, the assessor personally administers the few active institutional exemptions. Field inspections to determine eligibility for exemption may be conducted by the assessor or a staff appraiser.

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f), of the California Constitution. This constitutional provision, implemented by section 206 of the Revenue and Taxation Code, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is

reasonably and necessarily required for church parking also is exempt, under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1.

Article XIII, section 4(b), authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be organized and operated for those purposes; (2) it must be non-profit; and (3) no part of its net earnings can inure to the benefit of any private shareholder or individual. The Legislature has implemented this constitutional authorization in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

County assessors administer the church and religious exemptions. The church exemption and the church parking exemption require an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant. Once granted, this exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

No religious exemption claims were filed in Alpine County during the last five years. Only one church exemption was filed and granted during this period, in the amount of \$19,262 for the 2003-04 roll. We found no problems with the processing of this one claim.

Welfare Exemption

The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. Effective January 1, 2004, the BOE became responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* to qualified nonprofit organizations. And, the assessor became responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid *Organizational Clearance Certificate* issued by the BOE. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's *Organizational Clearance Certificate* issued by the BOE.

The following table summarizes welfare exemptions granted on the local roll for the last five years:

ASSESSMENT YEAR	NUMBER OF EXEMPTIONS	EXEMPT ASSESSED VALUE
2003-04	4	\$1,284,569
2002-03	4	\$1,413,617
2001-02	4	\$477,312
2000-01	4	\$398,499
1999-00	5	\$515,568

The organizations that have claimed the welfare exemption during this period have included a charitable land trust, a religious school, and two summer camps.

We found no problems with the assessor's administration of the welfare exemption.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation.³ For the 2003 lien date, the BOE prescribed 78 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the BOE for review and approval. Assessors may also use locally-developed forms to assist them in their assessment duties.

The BOE annually sends three forms checklists to assessors for (1) property statements, (2) exemption forms, and (3) miscellaneous forms. Assessors are asked to indicate on the checklists which forms they will use in the succeeding assessment year and to return the checklists to the BOE by October 15 in the case of property statements and miscellaneous forms and by December 1 in the case of exemption forms. By February 10, assessors are also required to submit to the BOE the final prints (versions) of all BOE-prescribed forms they will use in the following year.

Since there are only about 2,500 items on the 2003-04 assessment roll, and the number of property types in the county is few, the assessor has limited need for assessment forms. We reviewed a sampling of 13 forms used by the Alpine County Assessor. We saw no rearranged forms and found that the assessor uses some locally-developed forms. With the exception of the following, we discovered no problems with the assessment forms used by the assessor.

³ Also sections 480(b), 480.2(b), 480.4, and rules 101 and 171.

RECOMMENDATION 2: Submit forms checklists to the BOE as required by rule 171.

We found that the assessor does not return the checklists to the BOE each year, indicating which forms he will use in the succeeding assessment year. Additionally, the assessor does not submit final prints of the forms to be used.

ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following principal elements:

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Valuation of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as lands subject to California Land Conservation Act contracts, taxable government-owned lands, and lands in Timberland Production Zones.

Unless there is a change in ownership or new construction, article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value factored at no more than 2 percent per year for inflation.

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from change in ownership for property tax purposes.

Section 110.1 requires the assessor to establish a base year value for real property upon a change in ownership, based on the property's fair market value on the date of change in ownership.

In our 2000 survey report, we recommended that the assessor promptly enroll new base year values for properties that experienced changes in ownership. In our current survey, we found that the assessor no longer has a backlog of transferred properties. The assessor enrolls most changes in ownership within the same tax year as the transfer.

Discovery and Document Processing

The assessor's primary means of discovering properties that have changed ownership is the review of deeds and other documents recorded with the county recorder, who sends copies of specified documents to the assessor. The recorder's office requires that Form BOE-502-AH, *Preliminary Change of Ownership Report* (PCOR), accompany documents submitted for recordation that transfer the ownership of real property. A \$20 fee is added to the recording fee when a PCOR does not accompany transfer documents submitted for recordation. PCOR's received by the recorder are forwarded with the recorded document to the assessor.

The assessment office specialist analyzes the recorded documents to determine the percentage of ownership transferred, if any, and whether the documents represent a reappraisable event. When a transfer document is received without a PCOR, the specialist sends Form BOE-502-A, *Change of Ownership Statement* (COS), to the owner. A COS is also sent when there is insufficient or incomplete information on the PCOR.

We reviewed several properties recently valued by the assessor for changes in ownership and found that the assessor establishes the correct base year, takes advantage of the presumption in rule 2 that the sale price reflects the full cash value of the property, and uses reasonable appraisal techniques. He also correctly values partial interest transfers, applies the annual inflation adjustment, and enrolls supplemental assessments.

Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a change in entity control and hence either do or do not constitute a corresponding change in ownership of the real property owned by the entity. Discovery of these types of change in ownership is difficult for assessors because ordinarily there is no recorded notice of the real property transfer.

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide specific information about the real property involved—for example, the county of location, the assessor's parcel number, etc. Because of the limited data provided by many entities, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

We reviewed the action taken by the assessor in response to the only change in control forwarded by the BOE's LEOP unit in the last five years, and found no errors pertaining to identification and change in ownership enrollment. We found that the assessor is processing LEOP notifications properly.

Base Year Value Transfer Exclusions

Certain transfers may be excluded from reassessment, provided that a claim is timely filed with the assessor and certain other requirements are met. Section 63.1 allows for the exclusion from reappraisal of property transferred between a parent and child, or grandparent and grandchild when the parent is deceased.

Upon reviewing several parent/child transfer exclusion claims, we found that claims were filed timely and included all required information and signatures. The assessor conducts additional research and/or contacts the taxpayer when needed.

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date; or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that

converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property as of its date of completion, or on each lien date while construction is in progress. When the assessor appraises completed new construction at full cash value, a new base year value is created for the newly constructed portion. Clarification of the statutory provisions for defining and valuing new construction is found in rule 463, and practical guidance is found in Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6.

There are several statutory exclusions from what constitutes new construction; sections 73 through 74.6 address these exclusions.

In our 2000 survey report, we made four recommendations in the area of the assessor's new construction assessment program. Two of these recommendations involved the assessor's new construction discovery program. First, we recommended that he improve the program by obtaining copies of permits for wells and septic systems from the county health department. The assessor complied with the recommendation, and has been receiving copies of these permits since late 2003. Second, we recommended that the assessor improve his discovery program by conducting periodic field inspections. Consequently, the assessor's staff now looks for new construction when in the field. We found no evidence of new construction that is escaping assessment due to inadequate field inspections.

We recommended that the assessor enroll the value of partially completed new construction on each lien date until the project is completed. Our review of the assessments of properties with construction in progress revealed that the assessor is valuing properties under construction in compliance with applicable statutes.

Finally, we recommended that the assessor promptly enroll new base year values following completed new construction. We found that the assessor is enrolling completed new construction in a timely manner.

Discovery

The assessor discovers most new construction activity from building permits. Currently, he receives copies of all building permits issued by the Alpine County Building Department and the Alpine County Health Department, the only two permit-issuing agencies in the county. The assessor also discovers new construction through field canvassing.

Each building permit includes the assessor's parcel number. In addition to receiving the building permits, the assessor also receives copies of building plans, when applicable, and notices of completion.

During the last three years, excluding permits for wells and septic systems, the assessor processed an annual average of about 155 building permits issued by the county building department.

ASSESSMENT ROLL	NO. OF PERMITS PROCESSED ⁴
2003-04	162
2002-03	141
2001-02	164

Building Permit Processing

The assessment office specialist enters each permit number into the computer system, which generates an active item in the appropriate appraiser's workload. Each work item remains active until the new construction is valued. No building permits are culled or discarded.

Valuation

The assessor sends a form requesting construction and/or demolition costs and specifications to each taxpayer that takes out a building permit for a new building, an addition, a patio or deck, or other significant improvement. If there is no response to the first request for information, the assessor sends a second request. The assessor estimates that the response rate is 70 to 80 percent. Regardless of the owner's response, all new construction is field reviewed.

The assessor typically values new homes and residential additions using the market approach. New residential construction such as decks and patios are valued by the cost approach utilizing the owner's reported cost, if it appears reasonable. If the owner's reported cost is not reasonable or has not been provided, a cost estimate derived from the costs of similar projects in the area is used. The assessor has concluded that the BOE and Marshall Valuation Service cost guides are not as accurate in reflecting construction costs in Alpine County as local market data (i.e., cost figures provided by taxpayers and contractors).

Since there are few sales of commercial property in the county on which to develop a market approach, new commercial construction is typically valued by the cost approach. If comparable rents are available, staff will also use the income approach to develop a value indicator for the new commercial structure.

Based on our review, we conclude that the assessor is utilizing appropriate policies and procedures when valuing new construction. We have no recommendations.

⁴ These figures do not include permits for wells and septic systems received, beginning in 2002, from the health department.

Declines in Value

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its factored base year value on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its factored base year value, then the assessor must enroll the factored base year value. (Assessors' Handbook Section 501, *Basic Appraisal*, January 2002, page 140.)

Taxpayer requests for informal reviews or value reductions, along with a watchful appraiser staff, remain the primary means of initiating decline-in-value reviews. Currently, with market values increasing in the county, decline-in-value reviews are a nominal part of the assessor's workload. When a decline-in-value program is again needed, it is anticipated that with the new computer system, decline-in-value properties will be easily tracked.

In our 2000 survey report, we recommended that the assessor annually reappraise property with a taxable value that is less than the factored base year value, as required by section 51(e). Although the assessor was diligent in his analyses and included adequately documented support for reduced or subsequently increased values, such analyses were not performed on an annual basis. In response to our recommendation, the assessor stated that staffing levels prevented him from performing annual reviews.

We found that since our 2000 survey, as time allowed and the staffing level improved, the assessor has reviewed all decline-in-value properties. Except for special property types, the assessor either restored the factored base year value or reappraised each decline-in-value property due to a change in ownership.

Currently, other than taxable government-owned property, Timberland Production Zone property, and a regulated water company, there were no properties in decline-in-value status on the 2003-04 assessment roll. We have no recommendations regarding the assessor's decline-in-value program.

Supplemental Assessments

Sections 75 and following require the assessor to appraise property at its full cash value upon change in ownership or completion of new construction and to issue a supplemental assessment based upon the change in ownership or new construction. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completed new construction occurs between January 1 and May 31, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in rule 463.500.

In our 2000 survey report, we recommended that the assessor issue supplemental assessments on a timely and regular basis. We found that the assessor now issues most supplemental assessments within the same tax year as the change in ownership or the completion of new construction, and

enrolls the new values on the first lien date after the event. The supplemental assessments are made timely and within the statute of limitations.

Processing

At the time of our survey fieldwork, supplemental assessments were being processed using the assessor's old computer program. Appraisers were using a worksheet to forward supplemental assessments for data entry, and the computer program generated calculations and notices. Notices, entitled *Notice of Supplemental Assessment*, were then mailed to property owners. The *Notice of Supplemental Assessment*, and its cover letter, included all of the information required by section 75.31. The Crest software program recently acquired by the assessor will process supplemental assessments in a similar manner.

After notices are sent, the supplemental assessment information is forwarded to the county auditor.

Enrollment

We examined several change in ownership and new construction events, and found that the assessor correctly enrolls two supplemental assessments for events occurring from January 1 to May 31, and one supplemental assessment for events occurring on or after June 1, but before the succeeding January 1. The assessor properly applies the inflation factor for the following lien date, properly enrolls supplemental assessments for small value changes, and processes negative supplemental assessments, as required, when property loses value due to damage or the voluntary removal of improvements. Additionally, we found no supplemental assessments processed outside of the statute of limitations set by section 75.11(d).

The assessor properly generates supplemental assessments for timeshares, business fixtures, leasehold improvements, possessory interests, and the unrestricted portion of Timberland Production Zone properties, and properly does not create supplemental assessments for taxable government-owned properties. However, we found that the assessor does not issue supplemental assessments upon the change in ownership of a manufactured home. This omission is discussed in the section addressing the assessment of manufactured homes.

We found no other problems with the assessor's supplemental assessment program.

California Land Conservation Act Property

Pursuant to the California Land Conservation Act (CLCA) of 1965, agricultural preserves may be established by a city or county for the purpose of identifying areas within which the city or county will enter into agricultural preserve ("Williamson Act") contracts with property owners.

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, e.g., hunting rights and communications facilities). Although such lands must be assessed at the lesser

of restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

Sections 421 through 430.5 prescribe the method of assessment for land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides BOE-approved guidance for the appraisal of these properties.

Taxable Government-Owned Property

Article XIII, section 3, of the California Constitution exempts from property taxation any property owned by local governments, except as provided in article XIII, section 11. Section 11 provides that land, and improvements thereon, located outside a local government's or local government agency's boundaries are taxable at a restricted value if the property was taxable at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as taxable government-owned properties.

For the 2003-04 assessment year, the assessor enrolled 10 taxable government-owned parcels with a total assessed value of \$878,761. All of these parcels are vacant land owned by a public utility district.

In our 2000 survey, we recommended that the assessor identify the specific agency that controls each government-owned parcel in the county, rather than using general names such as USA or State of California. At that time, we explained that having more detailed ownership information would facilitate verification that all government-owned property located outside the government's jurisdiction was being properly assessed. In addition, we stated that the assessor needed more detailed information for mailing requests for lessee information to the appropriate government agencies and improving his discovery program. We are not repeating this recommendation because the assessor's current practice has not resulted in inappropriate or escape assessments. The assessor is properly identifying taxable government-owned property. In addition, there are only a handful of government agencies that own property in the county and the assessor is well aware of the entities with which he needs to maintain contact.

In our 2000 survey, we also recommended that the assessor enroll the proper assessed values for taxable government-owned property. That recommendation arose from the assessor enrolling the same values for the taxable government-owned parcels on the 1998-99 assessment roll as he enrolled for 1997-98. The assessor implemented this recommendation and no longer enrolls the same value from one year to the next. However, we found there is still a problem with the valuation of taxable government-owned property and offer a recommendation for improvement.

We reviewed the files of four taxable government-owned properties. All had been purchased after 1975 and were taxable at the time of acquisition. Following the changes in ownership, the assessor correctly compared each parcel's current market value with the restricted value, and enrolled the lower of the two values. In each instance, the restricted value derived using the factor was lower than the current market value.

In subsequent years, the assessor compared the current market value for each taxable government-owned parcel to the restricted value, and enrolled the lower of the two values.

RECOMMENDATION 3: Assess taxable government-owned property at the lowest of current fair market value, factored base year value, or the restricted value.

The assessor has not been performing a three-way value comparison that includes the current fair market value, the factored base year value (FBYV), and the restricted value.

Letter To Assessors (LTA) 95/48 provides that it is necessary for each lien date to enroll the lowest of these three values for taxable government-owned property. LTA 2000/037 states that the value limitations prescribed by article XIII, section 11 are applicable to taxable government-owned properties acquired both before and after March 1, 1975. This LTA also provides that "base year values for taxable government-owned properties acquired after March 1, 1975 are established at the lower of current fair market value as of the date of change in ownership, or the 1967 assessed value multiplied by the appropriate factor as of the date of change in ownership." Thus, if the restricted value is lower than the current market value as of the date of the change in ownership, the restricted value becomes the base year value for the property.

The BOE-announced factor has historically increased more rapidly year to year than the article XIII A inflation factor, which is limited to 2 percent annually. As the base year values for the taxable government-owned properties reviewed are the same as the restricted values at the time the properties were acquired, in subsequent years the FBYV's will always be lower than the restricted values.

By neglecting to consider the FBYV in the required three-way value comparison, the assessor has been overassessing these properties.

Timberland Production Zone Property

Lands zoned "Timberland Production Zone" (TPZ) are valued in accordance with special TPZ site classifications; the valuation of such lands excludes the value of any standing timber. The annual value of a TPZ property is determined by its appropriate per-acre site value (section 434.5) plus the taxable value of any compatible, nonexclusive uses of the property (section 435). Assuming that TPZ lands are not also under CLCA contract, the annual taxable value of TPZ lands is the lowest of the (1) restricted value, (2) current market value, or (3) factored base year value.

The special valuation methods for TPZ lands do not apply to structures on TPZ lands or to reasonable sites for such structures. In other words, structures and the sites directly related to those structures are assessed as all other real property.

Alpine County has 12 TPZ parcels comprised of 1,125 acres. For the 2003-04 assessment year, the total assessed value of TPZ lands was \$93,894.

Our review of all 12 records showed that the assessor properly follows the BOE's schedule of per-acre values for different site classes of TPZ land. The assessor updates TPZ values annually based on the site class values provided by the BOE. There are no TPZ parcels in rezoning status pursuant to Government Code section 51120. All of the land zoned as Timberland Production Zone is identified on the assessment roll with the notation "TPZ," in conformance with section 433.

The assessor values homesites and improvements on TPZ lands at the lower of their current market value or their factored base year value. When there is a change in ownership, the assessor correctly issues supplemental assessments for homesites and improvements on TPZ land, and does not issue supplemental assessments for restricted TPZ land.

Taxable Possessory Interests

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.

There are approximately 125 taxable possessory interests in Alpine County, most of which are cabin sites leased from the U. S. Forest Service (USFS).

In our 2000 survey report, we recommended that the assessor comply with regulatory requirements by including the present worth of unpaid future rents in the value of appropriate possessory interests. Two instances were cited where base year values were calculated incorrectly because the possessory interests used for comparison purposes did not consider the present value of the unpaid future contract rents. The assessor changed his policy.

We recommended that the assessor include termination and renewal dates of possessory interest contracts on the list of possessory interest assessments to discover reappraisable changes in ownership. In our current survey, we found that the assessor is aware of changes of ownership, but is not revaluing the possessory interests at the end of their anticipated terms of possession. Therefore, we restate this recommendation to emphasize the reappraisal of possessory interests upon a change in ownership.

We recommended that the assessor include copies of leases and other pertinent information in all possessory interest files. The assessor has not implemented this recommendation. But, since this

is not a statutory requirement, we are not repeating this prior recommendation in this report. Additionally, we found other areas of this assessment program that require improvement.

RECOMMENDATION 4: Revise the assessment of taxable possessory interests by (1) annually determining the market value of a possessory interest based on the stated term of possession as required by rule 21, and (2) reappraising all taxable possessory interests upon a change in ownership as required by section 61(b).

Annually determine the market value of a possessory interest based on the stated term of possession as required by rule 21.

We found the assessor does not use the stated term of possession when determining the market value of a possessory interest for each lien date. It is the assessor's practice not to re-compute the market value using a declining premise, instead the FBYV is enrolled.

Rule 21(d)(1) provides that the term of possession stated in a lease shall be the reasonably anticipated term of possession, unless there is clear and convincing evidence that the lessor and lessee have mutually agreed to other terms. Rule 21(a)(6) defines the "stated term of possession" as of a specific date as the remaining period of possession as specified in the lease, including any options if it is reasonable to assume the options will be exercised. Thus, the stated term of possession of a possessory interest declines on each lien date, which may have a material effect on the market value of the possessory interest. For this reason, as a practical matter, the appraiser must estimate the market value of a possessory interest on the lien date (based on a declining term), compare this value with the FBYV, and enroll the lesser of the two.

Use of the correct term of possession affects the assessed value of a possessory interest each year when the assessor compares the fair market value to the FBYV and enrolls the lower of the two values. Using this methodology, in the early years of a 30-year lease, it is not unlikely that the FBYV of a possessory interest would be lower than the fair market value. Conversely, nearing the end of a lease, the fair market value may be the lower value. Many cabin site leases in Alpine County have stated terms of 20 years and will expire in 2005. The FBYV of the possessory interest probably exceeds the fair market value as of lien date 2003 because the remaining term is so short.

Failing to use a declining term when valuing possessory interests may overstate the taxable value of the possessory interest.

Reappraise all taxable possessory interests upon a change in ownership as required by section 61(b).

We found that the assessor fails to reappraise possessory interests at the end of the anticipated term of possession used to value the interest. Additionally, although the assessor's policy is to revalue possessory interests following a sale, we found that recent changes in ownership of privately owned cabins on USFS land had not triggered reappraisals.

Section 61 states that a change in ownership, as defined in section 60, includes the creation of a taxable possessory interest in tax exempt real property. Section 61(b)(2) provides that at the end of the reasonably anticipated term of possession used by the assessor, a new base year value, based on a new reasonably anticipated term of possession, shall be established for the new possessory interest.

By not revaluing possessory interests at the end of the anticipated term of possession or when a sale occurs, the assessor has been enrolling inaccurate assessments.

Leasehold Improvements

Leasehold improvements are all improvements or additions to leased property that have been made by the tenant or lessee. Such improvements can be secured to the real property or assessed to the lessee on the unsecured assessment roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over a period of time, they may add and remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

When real property is reported on the *Business Property Statement* (BPS), coordination between the real property and business property staff of the assessor's office is important. The reported cost should be examined by both an appraiser and an auditor-appraiser. The appraisers should determine the proper classification of the property to ensure appropriate assessment and avoid escapes and double assessments. The assessor must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

There are only three small areas of commercial development in Alpine County. As most commercial properties in Markleeville, Kirkwood, and Bear Valley are owner-occupied, leasehold improvements represent a very small segment of the assessment roll. Our review of the assessor's procedures for processing leasehold improvements revealed no problems.

Timeshares

A timeshare estate is a right of occupancy in a timeshare project that is coupled with an estate in real property. A timeshare project is one in which a purchaser receives a right to the recurrent, exclusive use or occupancy of a unit of real property for a specified time interval that has been or will be allotted from the occupancy or use periods into which the project has been divided. When purchased, a timeshare typically includes personal property (furniture, linens, kitchenware, and household items) and nonassessable nonreal property items (considered non-taxable). Examples of nonreal property items include vacation exchange rights, club memberships, selling and promotional expenses, and prepaid expenses such as maintenance fees.

In Alpine County, there is only one timeshare project. It is located near the ski resort of Kirkwood Meadows and consists of 40 units that were completed in late 1999. Ownership of

these units is divided into one-quarter and one-eighth interests, commonly referred to as fractional shares. As of spring 2004, all 208 fractional interests had been sold.

The few fractional shares that have resold indicate that their market values are increasing. As a result, the assessor has been annually enrolling the factored base year values for these timeshares, which are lower than their current market values.

We found only one problem with the timeshare assessment program.

RECOMMENDATION 5: Assess personal property contained in timeshare units used as rental property.

Some fractional timeshares are marketed as rentals. At the time of our survey, the assessor had not yet enrolled the value of the personal property contained in these rental units.

Section 224 provides that household furnishings shall be exempt from taxation, except for personalty held or used in connection with a trade, profession, or business. Rule 134 provides that "household furnishings" include furniture, appliances, rugs, cooking utensils, and art objects. Thus, personal property contained in a timeshare unit used as a rental property is assessable.

Water Company Property

Taxable water company property may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company property presents different assessment issues.

We obtained a list of all water supply sources annually inspected by the California State Department of Health Services' Branch of Drinking Water Field Operations, and the California Public Utilities Commission (CPUC). Using these lists, we reviewed the assessments of several water company properties.

The assessor currently enrolls the property of one CPUC-regulated company, two mutual water companies, and several private water companies.

Annually, the assessor requests water companies to file BOE-prescribed Form BOE-540-S, *Mutual or Private Water Company Property Statement*. However, only one company filed a property statement for the 2004 lien date.

Private Water Companies Regulated by the California Public Utilities Commission

Private, for-profit water companies are subject to rate base/rate of return regulation by the California Public Utilities Commission (CPUC). In brief, this form of regulation limits the rate a company may charge to the cost of service plus a fair return on rate base, or invested capital. For this reason, the market value of a regulated water company should correlate closely with the historical cost less depreciation (HCLD) of the assets.

Because the market values of these properties are tied directly to regulated rates, current market value may be less than a water company's FBYV, making it necessary to periodically reappraise the company's property as of the lien date.

We found that the assessor annually reappraises the property of Alpine County's regulated water company at the lower of its FBYV or its full cash value as of the lien date, using information provided by the company on its CPUC report.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost to its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company. In such cases, little value should be assigned to the land, improvements, and delivery system owned by the water company because the values of these properties are reflected in the assessments of the member or stockholder parcels.

We reviewed the assessment of the property of Alpine County's two mutual water companies. We found the assessor correctly values the property of these mutual water companies.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual revaluation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.

Audit Program

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

The following table shows the total number of audits completed over the last three years by the assessor (no audits were completed in 1999 or 2000):

DESCRIPTION	2003	2002	2001
Audits Scheduled			
Mandatory	1	1	1
Non Mandatory	0	0	0
Total Audits Scheduled	1	1	1
Unfinished From Prior Year	2	2	2
Total Audit Workload	3	3	3
Audits Completed			
Mandatory	0	0	0
Non Mandatory	0	0	0
Total Audits Completed	0	0	0
Audits Carried Forward	3	3	3

As previously stated, there are no auditor-appraisers in the Alpine County Assessor's Office. While the assessor has the authority under section 670(d) to perform mandatory audits, the only mandatory audit completed within the last five years was completed by an auditor-appraiser from the adjacent county that shares the audited property. After completion of the audit, the findings

were forwarded to the Alpine County Assessor, who then enrolled the values allocated to parcels situated in Alpine County.

In our 2000 survey report, we recommended that the assessor bring the mandatory audit program to current status. We also recommended that when an audit could not be timely completed, a signed waiver of the statute of limitations be obtained from the taxpayer. We are repeating these two recommendations.

Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more.

Section 532 provides that when the assessor discovers through an audit that property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

In Alpine County, there are three mandatory audit accounts, two ski resorts and one leasing company. Only one of the three has been audited, but the assessor anticipates completion of all mandatory audits by year-end 2004.

RECOMMENDATION 6: Improve the audit program by (1) timely auditing the books and records of professions, trades, or businesses, pursuant to section 469; and (2) requesting a waiver by the taxpayer of the statute of limitations when an audit cannot be timely completed.

Timely audit the books and records of professions, trades or businesses, pursuant to section 469.

We reviewed the three accounts in Alpine County eligible for mandatory audits and found that the assessor fails to audit the books and records of the accounts at least once every four years, as required. Further, as detailed in the preceding table, the assessor is behind on the mandatory audits.

The mandatory audit program verifies the reporting on the largest business property accounts and helps to prevent any potentially large errors or escape assessments. Experience shows that it is more difficult to obtain the records necessary for an audit the further removed the audit is from the year being audited. Thus, timeliness of the audit is important.

Request a waiver by the taxpayer of the statute of limitations when an audit cannot be timely completed.

Our review showed that none of the three mandatory audit files were marked for immediate action. Additionally, we did not find waivers, as defined in section 532.1, to extend the statute of limitations.

While the priority is to complete all mandatory audits timely, if this is not possible, the most prudent action is to obtain a waiver from the taxpayer. Section 532.1 provides that the taxpayer and the assessor may agree in writing to extend the time for making an assessment, correction, or claim for refund. The waiver protects the taxpayer if an overassessment is found and allows the assessor to enroll an escape assessment if a reporting deficiency is discovered. The waiver also serves to put the taxpayer on notice that audits are to be performed. Such notice might improve the level of accuracy and completeness of the data reported on the annual business property statement.

Nonmandatory Audits

A nonmandatory audit program serves several purposes in the assessment of personal property. Besides helping to mitigate taxpayer-reporting errors, a nonmandatory program also allows for the investigation and resolution of special problems uncovered during the processing of property statements.

The assessor has not scheduled or performed any non-mandatory audits for the current assessment year, or for the last four years. Notwithstanding current budgetary and time constraints, the assessor intends to implement a nonmandatory program as soon as the mandatory audits become current.

Business Property Statement Program

Section 441 requires each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more to annually file a property statement with the assessor; other persons must file a property statement if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of the property statement address a variety of property types, including commercial, industrial, and agricultural property, vessels, and certificated aircraft.

The staff recently processed statements for fiscal year 2003-04 as shown in the table below:

CATEGORY	TOTAL COUNT	SECURED DOLLARS	UNSECURED DOLLARS	TOTAL DOLLARS
General Business	118	\$3,545,306	\$6,981,027	\$10,526,333
Vessels	14	\$0	\$61,680	\$61,680

Two appraisers carry out most business property functions, including business property statement processing, under the direct control and review of the assessor. We found that the appraisers apply valuation factors and service lives correctly and consistently based on detailed instructions from the assessor.

The assessor has an efficient discovery program. Taxpayer self-reporting is the principal means of discovering assessable property. Other means of discovering assessable business property include reviewing fictitious business name filings, newspaper articles and advertisements, city and county business licenses, referrals from other counties, and BOE notifications. We found that the assessor effectively employs various methods to discover taxable real, business, and personal property.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent-good factors. A value indicator is obtained by multiplying a property's historical (acquisition) cost by an appropriate value factor.

Section 401.5 provides that the BOE shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

The assessor's valuation factors are integrated into the assessor's property assessment software and updated annually. The index and percent good factors conform to those in the AH 581 with the following exception.

RECOMMENDATION 7: Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.

The assessor inappropriately uses minimum valuation factors in the valuation of older machinery and equipment. For most machinery and equipment in Alpine County, the assessor uses initial service lives of 12 and 15 years, and minimum valuation factors of 16 and 17 percent, respectively. Additionally, the assessor has adopted the California Assessors' Association (CAA) position that specific types of equipment, e.g. pagers, facsimile equipment and photocopy machines, should be valued with no consideration to the price index component—only a percent good consideration similar to computer valuations.

Section 401.16, effective January 1, 2003, provides that if assessors use percent good factors that include a minimum percent good, the minimum percent good factors must be determined in a supportable manner. We found no evidence that any studies had been undertaken to substantiate the minimum percent good factors used by the assessor. Further, the use of untrended valuation factors for specific types of equipment is not recommended in the AH 581.

Computer Valuation

Pursuant to section 401.5, the BOE also issues valuation factors for computer equipment (see AH 581, "Table 6: Computer Valuation Factors").

We found that the assessor has adopted the BOE factors for valuing computer equipment.

Leased Equipment

The business property staff is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include difficulty in establishing taxability and taxable situs, reporting errors by lessees and lessors, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments resulting from lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

Notwithstanding the valuation issue addressed in the preceding recommendation under business equipment valuation, we found the leased equipment program is well managed. The assessor is diligent in the discovery, processing, and tracking of leased equipment.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842 of the Revenue and Taxation Code. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

In Alpine County, the zoning ordinance does not allow for manufactured homes to be installed outside of a mobilehome park unless the home meets certain criteria and is installed on a foundation system pursuant to Health and Safety Code section 18551. For property tax purposes, homes installed on a foundation system pursuant to section 18551 are considered real property.

Currently, there is one mobilehome park in the county, and only seven manufactured homes in the 30-site park are subject to local property taxation. The total value of these seven manufactured homes on the 2003-04 assessment roll was \$40,055 (excluding homeowners' exemption).

With the exception of the following, we found no problems with the assessment of manufactured homes.

RECOMMENDATION 8: Improve the manufactured home assessment program by (1) enrolling manufactured homes on the secured roll, as required by section 5830, and in the manner prescribed in section 5801; and (2) issuing supplemental assessments upon a change in ownership of a manufactured home.

Enroll manufactured homes on the secured roll, as required by section 5830, and in the manner prescribed in section 5801.

The assessor currently enrolls manufactured homes as improvements on the unsecured roll.

This procedure does not conform to section 5830, which provides that manufactured home assessments shall be entered on the secured roll, or to section 5801, which requires that manufactured homes not be classified as real property unless they are affixed to the land on a permanent foundation system pursuant to section 18551 of the Health and Safety Code.

While incorrect enrollment and classification may result in errors in the application of special assessments and certain personal property exemptions, Alpine County has no special assessments, and we found no errors in regards to personal property exemptions. Regardless, the assessor's practice is not consistent with statutory provisions.

Issue supplemental assessments upon a change in ownership of a manufactured home.

Over the last five years, the assessor re-valued three manufactured homes that had changed ownership. We found that the assessor did not issue supplemental assessments for these events.

Section 75.10 provides that whenever a change in ownership occurs, the assessor shall appraise the property changing ownership at its full cash value on the date the change in ownership occurs, and that this value becomes the new base year value for the property. This results in supplemental assessments for differences between the new base year value and the taxable value on the roll.

Non-conformance with statutory provisions results in escaped assessments, which, in the case of the three cited changes in ownership, included both positive and negative supplemental assessments.

Vessels

Assessors must annually appraise all vessels at market value. The primary sources used for the discovery of assessable vessels include Department of Motor Vehicles (DMV) reports, referrals from other counties, and information provided by the vessel owners themselves.

The Alpine County Assessor assessed 14 vessels on the 2003-04 local assessment roll, with a total assessed value of \$61,680.

All vessels are appraised each year based on value data in the National Automobile Dealer's Association (NADA) valuation guide website. With one exception, the vessel assessment program is well managed.

RECOMMENDATION 9: Include sales tax as a component of value when appraising vessels.

The assessor uses the NADA website for the appraisal of vessels. When appropriate, adjustments are made to the NADA value data for vessel condition, motor and motor condition, accessories, and trailers. However, the assessor does not add sales tax.

Assessors' Handbook Section 576 (AH 576), *Assessment of Vessels*, states that where a value guide is used for a comparative sales approach, sales tax, an element of value, should be added to the listed value to arrive at the full cash value for property tax purposes.⁵

Animals

The California Constitution mandates that all property is taxable unless specifically exempted by the Constitution, the laws of the United States, or, in the case of personal property, by act of the Legislature. Most animals are exempt from taxation. Pets are exempted under section 224. Many animals that are considered business inventory are exempted by sections 129 and 219 and rule 133.

At the time of our survey fieldwork, Alpine County had no assessable animals. Assessable animals in past years included pack mules and horses; however, the pack station is no longer open for business.

Animals are usually reported on Form BOE-571-F, *Agricultural Property Statement*. Other methods of discovery include intercounty communications of transfers, newspaper articles and advertisements, telephone yellow pages, and listings in business directories.

We found that the assessor properly discovers and identifies assessable animals.

⁵ February 2002, page 13.

APPENDICES

A. County Property Tax Division Survey Group

Alpine County

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Peter Gaffney

Supervising Property Appraiser

Survey Team Leader:

Sally Boeck

Senior Specialist Property Appraiser

Survey Team:

Dale Peterson

Senior Specialist Property Auditor-Appraiser

Zella Cunningham

Associate Property Appraiser

Wes Hill

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Ancil Aydelott

Associate Property Auditor-Appraiser

David Barbeiro

Associate Property Auditor-Appraiser

Larry Gee

Associate Property Auditor-Appraiser

Erica Fisher

Office Technician

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁶ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The BOE, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the BOE's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The BOE's County Property Tax Division (CPTD) conducts the assessment sampling program on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁷
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
 - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

⁶ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

⁷ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

- b) **Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - c) **New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - d) **Non-Proposition 13 properties.** Those properties not subject to the value restrictions of article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.
 - e) **Unsecured properties.** Those properties on the unsecured roll.
5. From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation that is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. "Expanding" the sample data eliminates this apparent distortion in the raw sampling; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
6. The field investigation objectives are somewhat different in each category, for example:
- a) **Base year properties** -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?

- b) **Transferred properties** -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?
- c) **New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
- d) **Non-Prop 13 properties** -- for properties not covered by the value restrictions of article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?
- e) **Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the

assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
- (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
- (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
- (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment

operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
- (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

(b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
- (8) Discovering and assessing property that has suffered a decline in value.
- (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

(c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Alpine County Assessor's response begins on the next page. The BOE has no comments on the response.



Alpine County Assessor's Office

David Peets, Alpine County Assessor

P.O. Box 155, Markleeville, California 96120 ~ (530) 694-2283 ~ Fax (530) 694-241

April 12, 2005

Ms. Mickie Stuckey, Chief
County Property Tax Division
State Board of Equalization
P. O. Box 942879, MIC:62
Sacramento, CA 94279

RECEIVED

APR 19 2005

County Property Tax Division
State Board of Equalization

Dear Mickie:

Pursuant to Section 15645 of the California Government Code, we are including herewith the Assessor's response to the 2003/04 Assessment Practices Survey Report for Alpine County conducted by the State Board of Equalization staff.

We wish to thank Sally Boeck, Ancil Aydelott, Zella Cunningham, Wesley Hill, Erica Fisher, Lawrence Gee, David Barbeiro, Dale Peterson, Benjamin Tang and Peter Gaffney for the courteous manner in which they conducted their work here. In an office our size, it is almost impossible to not experience difficulties while working next to the State Board staff. The State Board staff worked hard at minimizing their interference of our normal work day procedures.

We appreciate the constructive recommendations that should help this office produce a more accurate and efficient tax roll.

I wish to thank my employees, Donald O'Connor, Ed Daley and Maurice McDonell for their cooperation in helping the Assessor's office maintain our assessment program under difficult circumstances.

I believe that with proper budget support, this office will be able to comply with the recommendations in a timely manner.

Sincerely,

A handwritten signature in cursive script that reads "Dave Peets".

Dave Peets
Alpine County Assessor

ALPINE COUNTY

ASSESSOR'S RESPONSE TO STATE BOARD OF EQUALIZATION'S RECOMMENDATIONS 2003/04 SURVEY

RECOMMENDATION 1: Improve the assessment roll change program by (1) limiting roll changes to those roll years within the statute of limitations in section 532, and (2) sending a *Notice of Enrollment of Escaped Assessment* as required by section 534.

RESPONSE: The assessor found a few cases where the values were entered timely, but were sent to the auditor late. In the cases mentioned above, all bills were caught by the tax collector and assessor prior to mailing. Alpine County will comply with the second part of this recommendation.

RECOMMENDATION 2: Submit forms checklists to the BOE as required by rule 171.

RESPONSE: Alpine County only uses state approved forms. We are so small that we take SBE forms and make copies on the Xerox machine after putting on our local information. We will send in these forms timely.

RECOMMENDATION 3: Assess taxable government-owned property at the lowest of current fair market value, factored base year value, or the restricted value.

RESPONSE: The Assessor disagrees with the BOE statements that we are not correctly applying the R & T laws on section 11 properties. We have studied this law in depth, and feel that our application is correct. We side with San Luis Obispo and other counties on this issue. We expect to solve this issue in the near future. We feel to follow the instructions of the survey crew would be a violation of the basic principles of Prop 13.

RECOMMENDATION 4: Revise the assessment of taxable possessory interests by (1) annually determining the market value of a possessory interest based on the stated term of possession as required by rule 21, and (2) reappraising all taxable possessory interests upon a change in ownership as required by section 61(b).

RESPONSE: Alpine County disagrees with the first part of this recommendation. We believe along with at least four other eastern sierra counties that we have clear and convincing evidence to use our expected terms as opposed to the remaining term on the contracts. We have over 60 years of history to back up our values, which was not researched by the BOE crew. We agree with the second part as a few changes in ownership have escaped assessment. We are currently updating our procedures for acquiring information from the respective jurisdictions that cover Alpine County.

RECOMMENDATION 5: Assess personal property contained in timeshare units used as rental property.

RESPONSE: This problem in one area only came to our attention during the BOE survey. We have had problems determining the correct ownership of the personal property in these timeshares. We now believe we have the correct owners, and the assessments will be billed shortly.

RECOMMENDATION 6: Improve the audit program by (1) timely auditing the books and records of professions, trades, or businesses, pursuant to section 469; and (2) requesting a waiver by the taxpayer of the statute of limitations when an audit cannot be timely completed.

RESPONSE: We concur with this recommendation and hope to comply this year. We have just recently converted a part time real property appraiser to an auditor appraiser to help in this effort.

RECOMMENDATION 7: Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.

RESPONSE: Alpine County uses the tables derived and used by the California Assessors' Association.

RECOMMENDATION 8: Improve the manufactured home assessment program by (1) enrolling manufactured homes on the secured roll, as required by section 5830, and in the manner prescribed in section 5801, and (2) issuing supplemental assessments upon a change in ownership of a manufactured home.

RESPONSE: The assessor concurs with part one, and will comply. On the case mentioned in part two, we did not issue a supplemental due to the fact that the homeowners

exemption wiped out the supplemental assessment. We concur that supplemental assessments should be issued on change in ownerships of manufactured homes.

RECOMMENDATION 9: Include sales tax as a component of value when appraising vessels.

RESPONSE: This office concurs and will implement immediately.